

GrowGeneration Corporation

Second Quarter 2020 Earnings Call

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PRESENTATION

Operator

At this time, I'd like to welcome everyone to the GrowGeneration Corp. Second Quarter 2020 Earnings Conference Call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you'd like to ask a question during this time, simply press star, then the number one on your telephone keypad. If you'd like to withdraw your question, simply press star, then the number two. Thank you.

Mr. Michael Salaman, you may begin your conference.

Michael Salaman — President, GrowGeneration Corp.

Thank you. Good morning. My name is Michael Salaman, Co-Founder and President of GrowGeneration. At this time, I would like to welcome everyone to the GrowGeneration second quarter 2020 earnings conference call.

With me this morning is Darren Lampert, our CEO and co-Founder, Monty Lamirato, our CFO, and Tony Sullivan, our Chief Operating Officer who will all be participants on our call this morning. After our CEO, CFO and COO's remarks, there will be a question-and-answer session.

As always, we expect to make forward-looking statements this morning, but I want to caution you that our actual results could differ materially from what we say here. Investors should familiarize themselves with the full range of risk factors that could impact our results, and those are filed in our Form 10-K which we filed with the Securities and Exchange Commission.

I'd also remind everyone that today's call is being recorded and an archived version of our call will be available on our website later today.

Let's get started. It's been an exciting quarter. Looking forward to presenting.

I would sum up our second quarter as a quarter where all sales channels came together and performed extremely well. GrowGeneration recorded its 10th consecutive quarter of record revenues and we achieved record Adjusted EBITDA and net income for the quarter ended June 30, 2020.

On August 10, we broke \$100 million in revenues, a goal Darren and I set six year ago when we started the Company. Our hydroponic garden centres experienced a 50 percent increase in walk-in transactions from the end of Q1 to the end of Q2, now surpassing over 10,000 per week. Online sales continue to increase, up almost 150 percent quarter-over-quarter with our unique visitors now approaching 100,000 per month.

The commercial division added a record 167 new commercial accounts in the quarter with revenues up 142 percent quarter-over-quarter. That division, our commercial division now services over 700 commercial customers.

Our follow-on public offering led by Oppenheimer was upsized due to demand, and we raised \$48 million in new capital. With approximately \$60 million of cash on our balance sheet today, our Company is actively pursuing several store acquisitions and looking at new markets for new store openings to continue to drive growth. Growth and preparedness delivered record results this quarter and this execution discipline continues to deliver positive results quarter-over-quarter.

With that brief introduction, I will turn the call over to our CEO, Darren Lampert who will present our second quarter 2020 results. Darren?

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Thank you Michael. Good morning and welcome to our second quarter earnings call.

Before we begin our Q2 earnings call, I'd like to begin by thanking our staff and customers for their hard work, dedication and loyalty during this time of uncertainty. As we continue to monitor the COVID-19 outbreak, GrowGen is considered an essential supplier to the agricultural industry, supplying the nutrients and nourishments required to feed their plants. Accordingly, all our 28 stores were open during this difficult time and remain open. We have plans and procedures in place to ensure our customers and employees stay safe during this time of uncertainty.

All of us at GrowGen remain committed to the safety and wellbeing of our customers and employees. On August 12, GrowGen entered into a partnership with Whole Cities Foundation, committing to donate product to develop urban farms across the United States.

We are excited to report another quarter of record financial results and performance by our Company. As I reflect on the quarter's results, I remind myself and our team that GrowGen is in the early stages of a multi-billion dollar industry with tremendous growth ahead of us. GrowGen was built through hard work, limited capital and organic growth from 2014 to 2018. We built a foundation for growth in those early years, and in 2018 we raised \$20 million that we invested in our business, driving sales from \$30 million in 2018 to \$80 million in 2019. On August 10, we surpassed \$100 million in sales with over 18 weeks still to go in the year.

The Company's Q2 2020 record financial results reflect our continued focus on revenue growth and Adjusted EBITDA expansion. Q2 2020 was the Company's 10th consecutive record quarter of revenue. As we continue to outpace our guidance, we are increasing Fiscal Year 2020 revenue guidance to \$170 million to \$175 million and increasing Adjusted EBITDA guidance for 2020 to \$17 million to \$18 million. We have set 2020 full-year GAAP pre-tax net income guidance to \$7 million to \$8 million. Revenue guidance for full year 2021 is \$245 million to \$260 million, and full-year Adjusted EBITDA 2021 is \$26 million to \$28 million.

Revenue was up 123 percent quarter-over-quarter to approximately \$43.5 million versus \$19.5 million for Q2 2019. Adjusted EBITDA was \$4.6 million for Q2 2020 compared to \$1.7 million for Q2 2019. Adjusted EBITDA for Q2 2020 was \$0.12 per share basic. Net income from store operations was approximately \$7.6 million compared to \$3.1 million for Q2 2019, an increase of 146 percent. Our same-store sales were up 49 percent in Q2 2020 versus Q2 2019.

Our online business, GrowGeneration.com is projected to exceed \$10 million in revenue in 2020, was up 149 percent for Q2 2020 versus Q2 2019, and up 163 percent for the six months ended Q2 2020 versus six months ended Q2 2019. Our omnichannel strategy will connect all 28 of our stores' inventories to our ecommerce site, allowing for buy online and pick-up in store functionality. GrowGen's just-in-time supply chain delivers our products safely and timely to our customers. Today, we offer will call, curbside and direct-to-farm shipments from all our store locations, and through our online ecommerce platform, we can ship to all 52 states.

Recently we have seen a surge in online revenues and we are well prepared to fulfill these orders. Our commercial division is projected to do in excess of \$30 million in annual revenues for 2020 and it had \$9.3 million of revenues in the quarter, 142 percent increase for Q2 2020 versus 2019.

To highlight our market by market growth, Colorado was up 18 percent quarter-over-quarter, 21 percent for the six months; California 19 percent plus 32 percent for the six months; Michigan 322 percent plus 299 percent for the six months; and Oklahoma plus 348 percent plus 332 percent for the six months. Our weekly walk-in transactions are now over 10,000, increased by 50 percent from Q1 2020 to the end of Q2 2020.

On June 16, the Company successfully acquired H2O Hydroponics and consolidated it with our West Lansing operations into a new 15,000 square foot super hydroponic garden centre. The Company believes that the combined business will generate over \$8 million in annual revenue in 2020. This week, we closed on a store, Emerald City Gardens, our 28th store located in the heart of the green zone in Concord, California.

Our commercial revenues for the six months ended June 30, 2020 were \$17.7 million, an increase of 181 percent over the six months ended June 30, 2019. We have generated more commercial sales in the six months than we did in the entire 2019 year. We continue to see strong demand for our products that include LED lights, nutrients, additives, soils, and other products that outfit these growers' gardens.

Our newly launched private label, Sunleaves Nutrients, an additive line of products is now generating over \$100,000 a month in sales. We are focused on margin expansion strategies that include furthering the deployment of more private label products and driving more efficiencies at the purchasing level as we continue to scale.

We have new acquisitions and new store openings we plan to close during the remainder of 2020 as we continue to drive growth. Our mergers and acquisitions pipeline is the most active it has been since our inception. We have set a corporate goal to reach 50 stores in 15 states in 2021.

GrowGen has a tremendous team of essential employees who have made a commitment to our Company and customers, and I couldn't be any prouder. I am inspired by their efforts and dedication as they have worked tirelessly to service our customers and communities.

I will now turn the call over to Tony Sullivan, our Chief Operating Officer who will brief everyone on our current COVID-19 risk mitigation procedures and key operation initiatives executed in Q2, and then to our CFO, Monty Lamirato who will provide more detail on our Q2 2020 year results. Tony?

Tony Sullivan — Chief Operating Officer, GrowGeneration Corp.

Thank you Darren. We had another successful quarter with record financial results, and we are very proud of our team's continued growth, execution and performance in the second quarter.

As Darren stated, our top priority is the safety of our team, their families and our customers. Currently all 28 of our locations are open and operating efficiently. We have been relentless and one step ahead with all safety protocols throughout this pandemic. We are classified as an essential business supply chain for agricultural and medical, and COVID-19 city, county, state and federal mandates we have updated and consistently been aware of all changes, monitoring them several times daily and making sure our teams are aware daily.

We have deployed remote working environments for all non-essential store personnel across multiple departments, and we currently have two out of the 10 states we operated in who have lifted the stay-at-home mandates and, even though they have lifted the stay-at-home mandate, we continue all or protocols and maintain the safety protocols in place regardless of the change in the state.

All stores we wear masks, we follow the six foot distancing rule, there is no more than 10 gathering at any time, and being that this is a fluid, ever-changing situation, we continue to manage, monitor and communicate daily. We will continue to maintain and communicate our safety and cleaning protocols and work towards our new normal business practices.

We are monitoring and have a significant cleaning and safety supply in all locations. We will continue to stay one step ahead, operating with stricter protocols to ensure we keep our team and our customers safe.

A couple of key takeaways with COVID. Our relentless proactive safety communication and approach has paid off. We have had no reported COVID positive tests, and we're very proud of that. Considering the COVID-19 impact, we have continued to produce record results in Q2. As stated earlier we are able to deploy and test critical omnichannel functionality, including buy online pick-up in store, curbside pickup, will call, and pick, pack and ship, providing multiple channels for our customers to shop safely and efficiently. We are ready to deploy proven additional safety operating levels if and when necessary by location. Most importantly, we are prepared to maintain our highest safety levels protecting our team and our customers.

Now for a few key operating initiatives and accomplishments in Q2. We have developed a real estate and two-year growth strategy that will strengthen our multi-channel supply chain and our state-by-state ownership plan. Omnichannel and new websites, we are currently testing buy online pickup in store, pick, pack and ship, curbside pickup solutions as we wrap up the final development to launch our new site.

In our private label strategy, our newest product offerings have exceeded expectations and Phase 2 expansion is underway. SKU rationalization and new store plan-o-gram projects, we have selected one of the top industry partners in the space. We anticipate significant learnings and data to improve our inventory turn and optimization of inventory and process.

Brand reset and refresh, this is our first 25 feet strategy. We have started our rebrand strategy where we will rebrand, re-sign and develop a consistent customer experience across our multiple channel site and stores. GrowGeneration West Lansing, as Darren shared with you, we recently purchased H2O. We have consolidated the market into a 15,000 square foot super garden store with outstanding results. GrowGen Grand Rapids, we are currently relocating and expanding into a 20,000 square foot super hydro garden centre store and this will be our midwest fulfillment centre, opening in early September. On August 10, we have completed the acquisition of Emerald City Garden located in Concord, California, our 28th location.

At this time, I will now turn it over to Monty, our CFO to review our financial highlights. Monty?

Monty Lamirato — Chief Financial Officer, GrowGeneration Corp.

Thanks Tony. Let's go over the Q2 2020 financial highlights. Some of these items were previously discussed by Darren, so some of them might be a little repetitive.

Revenues up 123 percent to \$43.5 million for Q2 2020 versus \$19.5 million for Q2 2019. The revenue increase is the result of, one, an increase in same-store sales of 49 percent quarter-over-quarter, the addition of six new retail stores opened or acquired after June 30, 2019 that contributed no revenue in quarter two 2019 compared to \$13.5 million in Q2 2020. Two stores opened in May 2019 that contributed \$2.25 million in revenue this quarter ended June 30, 2020 compared to \$1 million for the quarter ended June 30, 2019, and a 142 percent increase in commercial business comparing Q2 2020 to Q2 2019 and a 149 percent increase in our online sales comparing Q2 2020 to Q2 2019. Sales in

the 19 stores open for all of Q2 2020 and Q2 2019 contributed revenue of \$25.1 million for Q2 2020 versus \$16.9 million for Q2 2019, a 49 percent increase.

Gross profit was \$11.6 million for the second quarter Q2 2020 as compared to \$5.8 million for Q2 2019, an increase of \$5.8 million or 99 percent. Gross profit as a percentage of sales was 26.7 percent for Q2 2020 compared to 29.9 percent for Q2 2019. The decrease in the gross profit margin percentage was due to, one, commercial and ecommerce revenues accounting for 27 percent of total revenues for Q2 2020 compared to 25 percent of total revenues for Q2 2019, resulting in a reduction of margin of approximately 0.8 basis points as a result of lower margins for the ecommerce and commercial sales; two, in 2019, in the first quarter of 2019, we acquired a significant amount of inventory from a vendor at a very substantial discount. Sales of this product in Q2 2019 accounted for 5 percent of overall revenues and we had very high margins, resulting in a 1.3 basis point increase in margin in 2019.

Operating expenses, comprised of store operations, primarily payroll, rent, utilities and corporate overhead, operating costs were approximately \$8.8 million for Q2 2020 versus approximately \$4.6 million for Q2 2019, an increase of approximately \$4.2 million or 89 percent. Store operating costs were approximately \$4 million for Q2 2020 compared to approximately \$2.7 million for Q2 2019, an increase of approximately \$1.3 million or 46 percent. The increase in store operating costs is directly attributable to the increase in the number of stores, as previously discussed in the revenue section.

Store operating cost as a percentage of revenue was \$9.2 million—excuse me, 9.2 percent for Q2 2020 versus 14 percent for Q2 2019, a 35 percent reduction. Store operating costs are positively impacted by the opening of new and acquired stores throughout the second half of 2019 and new stores

in 2020, which have lower percentage of operating cost to revenue due to their larger size and higher revenue volume and a 49 percent increase in same-store sales.

Corporate overhead, which is primarily comprised of share-based compensation, depreciation and amortization, general and administrative costs, and corporate salaries and related expenses, was approximately \$4.8 million for Q2 2020 compared to approximately \$1.9 million for Q2 2019. Corporate overhead costs were 11 percent of revenue for Q2 2020 compared to 9.8 percent for Q2 2019. The increase in corporate overhead as a percentage of revenues for the quarter ended June 30, 2020 was due to the increase in non-cash share-based compensation from approximately \$390,000 for the quarter ended June 30, 2019 to approximately \$1.2 million for the quarter ended June 30, 2020. The increase in non-cash share-based compensation was a result of several new executive employment agreements which became effective January 1, 2020 for which share-based awards and option awards vested over a two-year period. The increase in salary expense from approximately \$821,000 in Q2 2019 to approximately \$2 million for Q2 2020 was primarily due to the increase in corporate staff to support expanding operations, including purchase store manager integration, accounting finance, information systems, purchase and commercial sales staff. Corporate salaries and related costs as a percentage of sales were 4.5 percent for the three months ended June 30, 2020 compared to 4.2 percent for the three months ended June 30, 2019.

G&A expenses, comprised mainly of advertising, promotion, travel, entertainment, professional fees, and insurance was approximately \$1.2 million for the three months ended June 30, 2020 and approximately \$549,000 for the three months ended June 30, 2019, with the majority of the increase related to advertising, promotion, travel, legal fees, and bad debt valuation allowances. General and

administrative costs as a percentage of revenues were 2.6 percent for the three months ended June 30, 2020 and 2.8 percent for the three months ended June 30, 2019.

As noted earlier, corporate overhead, which includes non-cash expenses consisting primarily of share-based compensation and depreciation and amortization, the non-cash expenses were approximately \$1.6 million for Q2 2020 compared to approximately \$542,000 for Q2 2019.

Net income for the three months ended June 30, 2020 was approximately \$2.6 million compared to net income of \$1.1 million for the three months ended June 30, 2019, a positive change of nearly \$1.5 million. The increase in net income for the quarter ended June 30, 2020 was primarily due to, one, the 123 percent increase in revenues while store operating costs increased only 99 percent; net income from store operations, which was approximately \$7.6 million for the quarter ended June 30, 2020 compared to \$3.1 million for the quarter ended June 30, 2019, an increase of 146 percent. The increase in income from store operations was offset by increased corporate overhead, which was approximately \$4.8 million for the quarter ended June 30, 2020 compared to approximately \$1.8 million for the quarter ended June 30, 2019, an increase of \$2.9 million of which non-cash share-based compensation and depreciation and amortization was \$1.1 million of that increase. The increase in G&A and salaries for the quarter ended June 30, 2020 compared to the quarter ended June 30, 2019 accounted for the remaining increase.

Adjusted EBITDA was \$4.6 million for Q2 2020 versus \$1.7 million for Q2 2019. The increase in Adjusted EBITDA comparing Q2 2020 to Q2 2019 was due to, one, an increase in net income of approximately \$1.5 million, and two, non-cash add-backs, primarily depreciation and amortization and

share-based compensation, which were approximately \$1.6 million for Q2 2020 versus \$540,000 for Q2 2019. Adjusted EBITDA per share was \$0.12 for Q2 2019 versus \$0.06—excuse me, was \$0.12 for Q2 2020 versus \$0.06 for Q2 2019.

Cash at August 12, 2020 was approximately \$59 million. Working capital at June 30, 2020 was \$35.2 million compared to \$30.6 million at December 31, 2019. During the quarter, we had proceeds from the sale of warrants of approximately \$282,000.

I'll now turn over the call back to Darren for some further comments.

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Thank you Monty.

In conclusion, GrowGen recorded its 10th consecutive record quarter of increased revenues and achieved record adjusted earnings. GrowGen achieved the sales milestone, surpassing \$100 million on August 10. Our commercial team did more business in the first six months of 2020 than we did in the entire year 2019, and our ecommerce division is growing at over 140 percent this same period quarter-over-quarter. Our store foot traffic is up 50 percent from end of Q1 2020 to the end of Q2 2020. Our Company has tremendous growth momentum built into the remainder of the year.

Our store acquisitions and new store openings continue to drive growth while we deliver double-digit same-store sales results quarter-over-quarter. We set a goal to own and operate over 50 locations in 15 states during the year 2021. Today, we own and operate 28 locations. All stores will be connected to our ecommerce platform in September, providing our customers the buy online and pickup in store

option. GrowGen's preparedness delivered record results, and this execution discipline will continue to deliver positive results quarter-over-quarter.

GrowGen has built an essential supply chain for the agricultural industry. Our leadership position is driven through our corporate mission statement to be the largest chain of hydroponic garden centres in the USA. We continue to cultivate the best and most knowledgeable staff in the country. We are focused on world-class customer service, a commitment to our customers. We continue to invest in our supply chain and technology, creating more efficiencies across all departments. Execution of our financial goals and guidance is evident with our Q2 2020 numbers we reported, with revenue up 123 percent quarter-over-quarter and Adjusted EBITDA earnings \$4.6 million or \$0.12 a share.

Our second quarter 2020 was strong as we successfully added H2O Hydroponics to the portfolio. This week, we added our 28th store, Emerald City Gardens located in Concord, California. We completed a \$48 million institutional follow-on public offering led by Oppenheimer which was over-subscribed three times. On June 29, GrowGen was added to the Russell 3000 Index. We believe our Russell 3000 listing will increase long-term shareholder value by improving awareness, liquidity and appeal to institutional investors.

Our balance sheet is strong with approximately \$60 million in cash which allows us to continue to execute our internal growth initiatives while we continue to purchase the best of green hydroponic operations. Note the new GrowGen locations.

We have increased Fiscal Year 2020 revenue guidance to \$170 million to \$175 million, Adjusted EBITDA guidance for 2020 is \$17 million to \$18 million, and full-year GAAP pre-tax net income guidance

of \$7 million to \$8 million. Revenue guidance for full year 2021 is \$245 million to \$260 million, Adjusted EBITDA full year 2021 guidance is \$26 million to \$28 million. We look forward to continuing to provide guidance as need be, and we are excited to share our successes with our shareholders, our management team, and partners.

Now we will answer a few questions.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question and answer session. Should you have any questions, please press star, followed by one on your touchtone phone. You will hear a three-tone prompt acknowledging your request and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press star, followed by two. If you're using a speakerphone, please lift your handset before pressing any keys. One moment for your first question.

Your first question comes from Brian Nagel with Oppenheimer. Please go ahead.

Brian Nagel – Analyst, Oppenheimer

Hi, good morning guys.

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Morning Brian.

Brian Nagel – Analyst, Oppenheimer

Great quarter, congratulations.

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Thank you.

Brian Nagel – Analyst, Oppenheimer

I have a couple questions. First, maybe a little bigger picture in nature, but there are obviously a lot of—you spent a lot of time talking about the ongoing COVID-19 crisis and the efforts on the part of GrowGen to contend with this. The question I have is as you look at the results in the quarter recently from a sales and maybe the expense part, can you help us understand better the puts and takes as it relates to COVID-19, meaning to what extent are your sales, phenomenal sales growth could be held back or were you actually to a certain extent benefiting in the crisis (inaudible) dynamic or expenses?

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

I'll take that Brian. I think it's twofold. First, it's really difficult to ascertain. Our growth was continuing right up into COVID, so what you really saw during our fourth quarter and first quarter was

really the increase in our same-store sales within our organization, as you saw probably again trending through last year, so the only thing that we've really seen through COVID is the continued increase.

What you're starting to see right now, I think is the resurgence of the cannabis markets in the United States. I mean, what you've seen from certainly earnings calls from the big MSOs, that business is booming, and you're starting to see, again, a lot of conversation going on with federal legalization and certainly states following up, even back east, so I think you're just seeing a lot of positives throughout the market.

But what we've seen specifically during COVID is that we're outpacing our peers. We are better stocked, we're better equipped, our stores are open and clean, and I think through Tony's guidance we've done a tremendous job handling COVID.

Expense-wise on COVID, certainly you're seeing certain expenses flow through - the cleaning supplies, certainly we've been giving bonuses to employees, we have not missed—you know, we've paid employees extra as opposed to docking employees for not working, so you're certainly—you're probably seeing \$150,000 to \$200,000 of expenses flowing through probably in the quarter, based upon COVID, that we hopefully see subsiding going into the future.

Brian Nagel – Analyst, Oppenheimer

That's very helpful. My follow-up question, Monty, in your comment you discussed gross margin in what was essentially a difficult comparison with last year. Within the context, you all lifted guidance for 2020 then introduced very compelling guidance for 2021, but how should we think about the gross

margins going forward, particularly in light of continued outsized growth in commercial, private label efforts and such?

Monty Lamirato — Chief Financial Officer, GrowGeneration Corp.

The commercial—go ahead?

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

No Monty, you take it. Go ahead.

Monty Lamirato — Chief Financial Officer, GrowGeneration Corp.

Certainly the increase in commercial and ecommerce as a percentage of total revenues has an impact on our overall margin, but with the increased effort that we have for private label, we hope to not only offset that but to increase our margins as a result of the introduction of additional private label products in 2021 and beyond.

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Brian, this is Darren. What you're also seeing, you're seeing a tremendous increase in foot traffic in our stores. You're seeing almost a 50 percent increase quarter-over-quarter. When you're looking at a blend of margins from GrowGeneration, it's threefold. It's commercial, it's ecommerce, and then it's foot traffic coming through the stores, which is also commercial but not (inaudible) business. So, what you're seeing in our second quarter, about 27 percent of our sales was basically MSO and commercial business that's flowing through in the low 20s.

We see as GrowGen continues to grow more foot traffic coming through the stores, and certainly with more purchases out there, we're just seeing more customers are shopping, so you're seeing our margins right now pretty consistent where they are in the 26 to 27 point range, but we see when we start flowing through private label product, which is certainly a work in progress, but this initiative at GrowGen right now, you'll see private label products flowing through anywhere from 60 to 100 basis points, so you will see us take up margins.

Slowly, we certainly are of the belief that our margins right now are certainly consistent throughout the year, but we think you will see these margins creeping up over the following year as private label becomes a bigger part of our business. Right now, you're looking probably at 1 to 2 percent private label. Initiatives hopefully by the end of next year will be again in a double digit number, so you'll see it slowly, gradually increasing.

Brian Nagel – Analyst, Oppenheimer

Very helpful. I appreciate all the colour. Congratulations and best of luck with the next couple quarters.

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Thanks Brian.

Operator

Your next question comes from Glenn Mattson with Ladenburg Thalmann. Please go ahead.

Glenn Mattson – Analyst, Ladenburg Thalmann

Hi, thanks for taking my question, and congrats on a nice quarter. Curious to get a little more colour on the commercial division. I know we've talked about it a bunch in the past, but there was really solid account growth, so number one, maybe you can just give us some more detail around that segment. Can you talk about the sales force, if you're growing that? Can you talk about if there's any maybe region of the country that's seen—that's driving it, maybe the nature of the accounts, the size of them, maybe if there's any churn in that base at all or anything? Just some more detail around that would be great.

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Michael, I'm going to send that over to you.

Michael Salaman — President, GrowGeneration Corp.

Sure, thank you Glenn for that question, it's a good question.

We're constantly building our commercial book of business, and as we announced today, we had a significant increase in number of commercial accounts - you know, up 167 for the quarter. We're now servicing over 700 commercial customers. We look at commercial business as a segment of the business where a commercial customer is defined for us as someone that's spending over \$50,000 or more with the Company. We have a dedicated sales force, we have a dedicated customer service division that works directly, and we think we've perfected the way to interface efficiently with these large multi-state operators and large regional commercial customers, and the evidence is based on the success that we've

had. Quarter-over-quarter, we were up in our commercial division 142 percent, six months 181 percent, and we're leveraging—and I think what's really working really well for the Company is that we have this interconnectivity between our commercial sales teams that is selling in based on a product selection that is personalized for that particular growth.

GrowGen has the capability to really supply exactly what that grower wants, and I think one of the things that we really understood very early on, that every commercial grower, every commercial cultivator grows a little bit differently, and you have to provide the ability to deliver what they are actually looking to use, that they're used to using from a nutrient perspective, a lighting perspective, and GrowGen's supply chain and inventory system is able to manage that. That's what closing business.

Then you tie that together with a just-in-time inventory system with the supply chain that we've created through the 28 locations, we're able to reach commercial customers same day and just in time. We have their inventory stocked at any one of our 28 locations, which is certainly expanding as we look at new markets coming on, so GrowGen is in a very strategic and unique position to not only acquire customers but to service and manage those customers on an ongoing basis with a local presence, combined with our commercial division which is made up of—you know, right now we have about 20 individuals, and that division has grown significantly.

As Darren mentioned in his comments, our commercial division in the first six months did more business than we did in the entire year for 2019, so it's a constant lead generation to quoting to closing, and then leveraging the supply chain to service those customers on an ongoing basis, and then

personalizing the offerings and our ability to deliver exactly what they want. That's what's acquiring these commercial customers and retaining these commercial customers.

Glenn Mattson – Analyst, Ladenburg Thalmann

Great, thanks for the colour there, Michael. Then just if I could, on a follow-up, curious just about if you're seeing any change in the competitive landscape at all. I mean, I know in the past it's been kind of a niche market and it's maybe not been big enough for the big national guys and stuff like that, but now that the pace of the growth is significant and you're talking about a quarter billion in revenue next year, just curious if you're seeing any new entrants from below or above on the competitive landscape. Thanks.

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

No Glenn, we have not at all. We've seen zero.

Glenn Mattson – Analyst, Ladenburg Thalmann

Okay, great. Thanks, that's it for me. Thanks.

Operator

Your next question—

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Thank you Glenn.

Operator

My apologies. Your next question comes from Mark Smith with Lake Street Capital Markets.

Please go ahead.

Mark Smith – Analyst, Lake Street Capital Markets

Hey, good morning guys. Thanks for taking some questions. The first question from me is just looking—can you talk a little bit about the multiples that you're seeing and paying right now on some recent acquisitions and your expectations going forward? As we look at M&A, has COVID maybe created some more opportunities and how long do you think that (inaudible)?

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Yes, I'll take that. Mark, we're still seeing pretty consistent multiples as we've seen in the past few years. We're seeing anywhere from two to three. Certainly the larger acquisitions may go to 4 to 5, but it's been pretty consistent throughout the years that we've been in business. As we've stated earlier during our conference call, our acquisition pipeline is big and getting bigger.

One of the interesting parts about that, there's a lot of work for GrowGen still to do in the existing space that we're in. We're seeing tremendous growth in the California markets right now. GrowGen still does not have a large presence in Southern California. We see more work to do in the Michigan markets right now, we see some work to do in the Maine markets and the Washington markets, so the interesting part is besides—again, GrowGen is forecasting 15 states next year, probably in excess of 15 states, but you still will see work out of GrowGen in existing states that we're in.

Mark Smith – Analyst, Lake Street Capital Markets

Okay, and that kind of leads to my next question. As we look at this goal of 50, can you talk about the mix of acquisitions versus building new stores?

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

It's a hard question right now, again because like anything else, our acquisition pipeline is fluid and it changes again when we start doing diligence on certain stores out there. But right now, we see still for next year more purchases, more stores being added through acquisition than through those new stores openings to GrowGen.

Mark Smith – Analyst, Lake Street Capital Markets

Okay.

Michael Salaman — President, GrowGeneration Corp.

Mark, I'd just add a little colour to that. What we've done over the years is look at acquisitions in mature markets, and the new emerging markets which are—you know, we're very excited about what we think is going to happen during this election year with Pennsylvania and New Jersey, Arizona, those are markets where there's really nothing for us to acquire, and those are markets that GrowGen will open up a new location, a super hydroponics operation to really take advantage of legalization. We're very much—and as Tony mentioned, we have a two-year real estate initiative to look at locations where these licenses are being granted, combining that with, as Darren mentioned, a very aggressive

acquisition program in the more mature markets - you know, Michigan and California, so you're combining both the acquisition strategy combined with the new markets that are opening up, and our ability to open up a new location in 90 days really gives the Company a tremendous first market mover position to take advantage of legalization as it occurs.

It's really those strategies that we've really implemented—you can see it in the results in Oklahoma, we were the first company to really take advantage of legalization, opened up four locations, each one of those locations are approaching a million dollars a month in business. We have the staff, the infrastructure and the expertise to not only acquire but to certainly open up new locations as these markets legalize themselves, and we think there's going to be a number of these new states coming on board in the fall.

Tony Sullivan — Chief Operating Officer, GrowGeneration Corp.

Hey Michael, if you don't mind, it's Tony - I'd like to add a little bit to that. With our two-year road map, it's broken out into really three phases, guys. One is our acquisition strategy, two is our new store new state strategy, and three is our supply chain fulfillment centre strategy, really putting in these big hub and spoke stores. The exciting thing is with 40 states of growth, we have the ability to go in and acquire, open up new and position our supply chain, so it's nice to have a three-phased approach in our two-year road map.

Mark Smith – Analyst, Lake Street Capital Markets

Excellent, that is helpful. Thank you guys. Last one from me, I guess, is just any update on the ERP system, kind of how that implementation has gone throughout all the stores and maybe where that has helped you as you've seen some of this growth, especially in building out some new systems like buy online pickup in store?

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Tony, would you like to take that?

Tony Sullivan — Chief Operating Officer, GrowGeneration Corp.

Yes, I'll take that. So good news, guys - our ERP system is fully deployed in all our stores that we operate in today. Secondly, it goes into all new acquisitions and new stores, and the exciting thing right now is we are connecting it with Magento and our omnichannel approach as we speak. We've been testing it very successfully with the BOPUS, pick pack and ship, and will play a significant part as we roll it out in September with our new website.

So, good news is ERP is up and running, fully deployed across the chain, fully deployed across anything we knew and acquired, and fully deployed with our new omnichannel approach and new website that we'll launch in September.

Mark Smith – Analyst, Lake Street Capital Markets

Perfect, thank you guys.

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Thank you Mark.

Operator

Your next question comes from Scott Fortune with Roth Capital Partners. Please go ahead.

Scott Fortune – Analyst, Roth Capital Partners

Good morning, congrats on a solid quarter again. Real quick to follow up on the real estate side of things, these acquisitions, are you looking—what's the average size footprint you're looking for with these acquisitions? Most recently you've moved up into the larger super centres, kind of more fulfillment centres, but step us through the store numbers with the smaller footprints versus the larger footprints, what you're looking for there.

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

I think, Scott, you'll see a mix depending upon states we're in, where the stores are located, what communities they're in, whether we're looking for distribution centre versus an add-on store in certain states we're in. Right now again within our portfolio, certainly within our acquisitions that we have or we will be closing, they range a tremendous amount, from low to high. I can't really discuss the numbers with you right now, what the size of some of these acquisitions until we complete them, but you'll see anywhere from 10,000 square foot stores and up.

Scott, one of the things you'll see is most stores that GrowGen is acquiring, you won't see stores doing under \$4 million in revenue.

Scott Fortune – Analyst, Roth Capital Partners

Got it, thanks. Then real quick, shifting to private label, you guys have put a focus on that but it sounded slow to really adopt and develop. Step us through more of the timing - you say 2021, you can get to double digit overall revenues, but step us through the initiatives you're looking. Then a little bit of colour on the (inaudible) side, are you seeing—what are you seeing on the NCB side as far as the business here?

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Hey Scott, I'm going to start off with that and then I'm going to toss it over to Michael quickly. One of the issues with the slow adoption of our private label, as we always stated for GrowGen, our desire was to build the stores, build the space, and then bring private label, and COVID certainly has slowed down the implementation of private label between China and getting things done right now. I can tell you that when you ask about COVID, COVID has slowed down the initiation of our private label getting into stores.

But with that, I'm going to turn it over to Michael, who is going to discuss our private label strategy.

Michael Salaman — President, GrowGeneration Corp.

You know, Scott, it's really twofold. You have brands that growers are seeking - you know, we stock every major brand, and then you have cost conscious growers that are looking for products at a lower cost, which really opens up the private label opportunity for the Company. As Tony I think mentioned earlier, we hired an expert to assist the Company in sourcing private label products. We're doing a very deep dive right now into SKU rationalization and plan-o-gramming, so—and last year, we bought the assets of variety of trademarks, product trademarks that all will be populated with a private label product coming into 2020, 2021.

There is tremendous opportunity. We've seen it with Sunleaves, which is approaching a million dollar brand. We brought in some products under the Pioneer brand. There's just tremendous opportunity we see, now that we've built out the distribution, we have the supply chain, to take advantage of the trademarks, developing new products, margin expansion. We will not bring a private label product into the market unless we can pick up over 50% margins, and we've set a very aggressive goal internally to get to 10 percent, next year 20 percent, the following year 30 percent.

We think the grower customer is certainly looking at cost, his return on investment, and we think through a cost efficient and a high quality private label offering, with the expertise of our grow pros that operate within our store footprint, our commercial grow technicians, we can really develop a very profitable and broad-based private label offering, and we just think there's tremendous upside in terms of margin expansion and just providing another alternative to our customer.

But we have to also be cognizant that there are brands and there are existing products that the growers are gravitating to, and we stock those products. GrowGeneration has built the largest selection of hydroponic products in the country, so we've taken somewhat of an agnostic approach and a personalization approach. We drive our business based on what does the grower need, what products are they buying, and our ability to offer a complete solution is why we're able to acquire new commercial customers, why we're getting more walk-in traffic coming into the store, because we have the selection. You're seeing more larger square footage, more selection, and then you combine that with our knowledge based sales team who understand the agricultural side of the plant, that's what's resonating. That's why this Company continues to put up triple digit growth and double digit same-store sales growth.

In regards to your hemp question, we certainly have our eye on the hemp market. I think as everyone probably realizes, the hemp market has been really a slow to take market. Our opinion is until the FDA really puts out a very specific position on the efficacy of it, the safety of it, the market is still going to be relatively niche. We certainly have hemp customers that we work with. We have a product offering, we certainly have product in the nutrient area specific for hemp farmers, but that market is still a very small part of the overall revenue pie of the Company. But do we believe that that market can take off? Absolutely.

With COVID, we're seeing a resurgence of individuals that are now embracing home gardening. We think there's tremendous upside in terms of the home market, where home consumers are going to start to create their own gardens, their own edible gardens for food and produce and those kind of things, so GrowGen is well positioned to market and attract those kind of customers as well. There's so

many opportunities in terms of different vertical markets that the Company can enter into, in addition to the cannabis market that will drive growth in the future for this Company, and we're certainly looking at how to attack it, how to acquire those customers, how to create the right suite of products and curate the right suite of products for all of those different vertical markets that are all part of this agricultural resurgence that's coming into our society, that's driven by many different influences, and GrowGen is just well positioned to attack all those verticals.

That's our position. Hopefully I answered your question.

Scott Fortune – Analyst, Roth Capital Partners

That's perfect, I appreciate the colour. I'll jump back in the queue, thanks.

Michael Salaman — President, GrowGeneration Corp.

Thank you Scott.

Operator

Your next question comes from Peter Wright with Intro-act. Please go ahead.

Peter Wright – Analyst, Intro-act

Great. Congratulations guys, and thank you for taking my question.

My question is really what is driving the better visibility in your business, and if we look at your guidance which is embedding 35 percent better profit this year, 25 percent better sales growth, and that

continuing into 2021, what is it that gives you that comfort, maybe kind of on a metric, and a couple things that I'm trying to think about is your customer value, so are you seeing more repeat customers, are you seeing lower acquisition costs as you build out your footprint in bigger ways? What are really the drivers that are driving those two big dynamics in your guidance, which is better visibility and better profit per dollar in sale?

Then my follow-up question is really just on your 2021 guidance. Does that include non-organic growth or is it only organic growth, like you have guided before? Thank you.

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

I'll start off and probably kick it off. 2021 growth includes acquisitions and new store openings, so that's—again, it's early guidance, so again right now it's what we're seeing within our portfolio in connection with acquisitions, new store openings. They are projections and certainly very early on in the game.

Just so you do know, we have soft guidance out to Wall Street for \$180 million for 2021, so like anything else, we had to give—we had to change that number, and this is what we feel comfortable with right now. We certainly hope that number will go higher throughout the year. We're extremely comfortable with that number as we stand.

What we're seeing in the industry right now is you're seeing a resurgence of the cannabis industry in the United States. You're seeing an industry that went through certainly bumps and grinds, took time to really get going, and what you're seeing right now is—you know, I spoke earlier about is

look at the reports coming out from some of the large MSOs around the country. Cannabis sales are up and they're up tremendously, and they are continuing, so you're seeing an industry really that's starting to grow up. As the industry grows up, there's always a leader on the side supplying that industry, and that's GrowGeneration. We're seeing a surge. We're looking at in our acquisition pipeline, they're sales are up. They're certainly not anywhere near the percentages that our sales are up, but what you're seeing right now from GrowGen is you're seeing foot traffic increasing, you're seeing commercial sales increasing, you're seeing online sales increasing, so you're seeing it throughout. You're not just seeing one small area of growth, you're seeing the growth throughout the whole Company.

What you're seeing is GrowGen building bigger stores, supply is up, our service is getting better, and you're seeing really a company that's been built in the last couple years. GrowGen from 2014 to 2018 was a \$30 million company, so you're seeing guidance going from \$30 million up to a quarter of a billion in three years, and you're seeing it really through, I think, the experience, the learning of a new industry, and again GrowGen has taken advantage that we have a tremendous staff that's been with us, so our staff—you know, again, we have employees that have been with us from the start. Certainly new stores that we purchase, owners have stayed on with GrowGen, so we have tremendous experience in the industry and again, I think this is all starting to pay off as we speak.

Anything else, business is business, and we don't see it stopping. We see a lot of verticals - you know, one is private label products, one certainly is the home garden market for GrowGen, and you'll see these things add. You've seen peg boards right now Tony is working on for every store. You're seeing all our stores with signage the same. All GrowGen stores are going to look the same and you're going to have a happy experience shopping at GrowGen for your gardening needs.

Michael Salaman — President, GrowGeneration Corp.

Just to add to what Darren just said, Peter, I think it's really, really important to focus in on the multi channel sales platform. GrowGeneration has stores, garden centres where we're getting tremendous traffic coming in, and that's only going to increase with new store openings and acquisitions. You have a growing commercial division that's continuing to grow through a dedicated sales team that's calling on the multi state operators and the local and regional commercial customers, and then you have ecommerce which is a project that we've been working on for over a year to bring the optionality of ordering online and picking up at any one of our stores, or ordering online and drop shipping direct to the home or the farm.

When you look at GrowGen's mix of sales, it's multi channel, and we run our Company that way. We're constantly driving marketing and sales efforts and lead generation across those three platforms, and we think it's very unique and very special for what we have. It's that multi channel approach that allows us to continue to grow across those multiple platforms, and I think that's really an important point to understand how this Company continues to grow at a top line triple digit and continue to drive double-digit same-store sales. With the omnichannel approach, which is just at the infancy of where we are, we're launching it in September, the ability to give our customers optionality - you know, on demand ordering, business tool which allows the commercial customers to truly understand their purchasing behavior, invoicing, tying them to our inventory, store locations, giving them the ability to pick up at any one of our locations, all of that is going to continue, in our opinion, to drive the results that we have experienced in this quarter and going forward.

So, multi channel sales is a very important component to how we operate the business, how we continue to drive our business.

Operator

Your next question comes from Aaron Gray with Alliance. Please go ahead.

Aaron Gray – Analyst, Alliance

Hi, good morning guys, and congrats on the quarter. First question from me, Monty, you gave some great commentary, and Darren too, in terms of private label initiatives. One thing I'm curious about in terms of as you kind of target your customer base in the early days, can you give some colour in terms of whether or not that's going to be more so on the commercial side or in store, because like you said with COVID, it seems like it's impacted the supply chain but also wondered in terms of consumer education in terms of your own product offering, beyond just the cost but also the quality, and then also whether or not you believe there is going to be more opportunity potentially in the new stores in states that you look to enter to kind of bring in those private label brands initially to those customers, versus your legacy stores where you have to transition them from the current products they're using. Thanks.

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Michael, Tony?

Michael Salaman — President, GrowGeneration Corp.

Yes Tony, take it.

Tony Sullivan — Chief Operating Officer, GrowGeneration Corp.

Yes, so first of all, as you look at existing stores versus new stores, we're doing one thing that I kind of mentioned earlier, and that is we are going to rebrand, reset every single store so that customer experience, whether you shop in a store in Rhode Island or California, it's the same. We're in the middle of that right now, and that will be a very similar experience - cash wrap, paid walls, positioning of brand offerings and our private label offerings. It's going to allow us to really enhance that customer experience when they walk into the store. So, Item 1 is in the next six months, we will have a very similar experience in all stores.

In new markets, it does allow us to build a little bigger store, a little better opportunity with our newest design right out of the gate versus refreshing that design going forward, so we're excited about new market growth but we're equally excited about refreshing, rebranding our existing growth because we know that's going to send the value proposition we're after for customers, no matter where they shop.

Hopefully that answers that question.

Michael Salaman — President, GrowGeneration Corp.

Hey Aaron, I'll just add to what Tony said. You know, what's exciting about the business model, when we look at these acquisitions, our purchasing power is increasing margin 5 to 6, 7 percent, so there's such accretion that comes just from the actual fact that we're now taking over their business. Combining that with putting the right inventory mix, as Tony mentioned, putting the right SKU

rationalization, the right plan-o-gram, putting the first 25 feet and really putting a GrowGeneration brand on that store has tremendous impact in terms of walk-in traffic and margin expansion. Most of these individual stores, even regional stores are not getting anywhere near the kind of margins that we're getting based on the fact that we've created a national scale hydroponic business, so there's just—there's margin expansion, there's SKU rationalization, putting private label in expands the margin, putting our brand, putting our commercial team against those stores, adding more commercial business, all of it translates to increased sales, better margins, more profitability, and consolidation of these markets that we're entering into, and we see that across the board. California, Michigan, Oregon, all the new markets that we just purchased, you look at the same-store sales, you look at the market over market percentage growth, that's because we're increasing the inventory levels, we're putting product that the growers really are looking to buy at margins that are increasing because of our purchasing power, plus adding the marketing and the sales is driving more revenue, so it's the combination of all those activities that's driving both top line and bottom line results for this Company.

Aaron Gray – Analyst, Alliance

Thanks for that colour. That's helpful. Then a second one for me just in terms of what you're seeing in terms of margin and margin opportunity, you gave some colour earlier on gross margin as well as the SG&A with the ERP system. As we look at the guidance for 2021, it looks like it implies just above 50 basis points of margin expansion. Darren, I know you said you're very confident in that guidance there, so just as you look at the bottom line and the implied margin, just want to think about the puts and takes there as we think about is it just that you're a little bit more conservative? Is there more margin opportunity but you just don't know where those acquisitions are going to fall and they might

kind of bring down the margin near term as you benefit from the scale you provide and implement (inaudible) to your own ERP system, and then on the gross margin side, just the puts and takes there in terms of private label being able to offset some of the potential negative mix and channel mix coming from commercial sales? Just any kind of overall colour on what you expect in terms of that margin guidance you provided for 2021 compared to 2020. Thanks.

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

As you know, Aaron, and again we certainly spoke about this, GrowGen has always been conservative with guidance. It's really—it's very challenging to, first, to forecast guidance in such a fast moving industry, and again we keep outpacing guidance. We try our best to give guidance that we think is accurate. Again, business is growing much quicker than we think.

With regards to margins, as you'll probably see from our EBITDA numbers next year. Next year is a long way away, so right now this is our best guess going into next year before we really get private label up and running, before we close—you know, get these acquisitions closed, and just get a better look into—again, when we purchased—we're purchasing larger stores and opening, we certainly want some colour a couple months out to give us some indication really margins in these stores, you know, under GrowGeneration's tutelage.

So right now, it would be really difficult for us to start upping margin accretion next year without really seeing where next year is. Certainly you'll see us without question after the first quarter of next year certainly refining guidance, and again if we're seeing higher margins falling through, higher EBITDA numbers falling through, then you'll see certainly that in updated guidance in the first quarter of next

year. We're still in August, we still do not know where COVID is going. We keep seeing sales increasing day over day and, again, one of the other interesting parts, if you take a look even—you know, if you back out our \$100 million number that we've kind of given guidance to Wall Street over our first 40 days were in the third quarter, and they were strong, so we're seeing continued strength into August right now. July was a wonderful month for GrowGen, so we're not seeing business slowing, and it's so organic. As you've probably seen, again we purchased three stores this year, and again way under our target for this time. You will see a very aggressive next four months for GrowGen on the acquisition trail, so you will hopefully—again, as we get these acquisitions complete and done and we understand the margins coming out of these stores and really what we can do with them, you certainly will see guidance updates from GrowGen.

Aaron Gray – Analyst, Alliance

Great. Thanks and best of luck.

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Thank you.

Michael Salaman — President, GrowGeneration Corp.

Thanks Aaron.

Operator

Ladies and gentlemen, as a reminder, should you have any questions, please press star, one.

Your next question comes from Eric Des Lauriers with Craig Hallum Capital Group. Please go ahead.

Eric Des Lauriers – Analyst, Craig Hallum Capital Group

All right, great. Thank for taking my question, guys. Congrats again on the strong execution here.

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Thank you.

Eric Des Lauriers – Analyst, Craig Hallum Capital Group

I was wondering, can you help us understand the landscape for larger hydroponic stores, call it stores doing greater than \$10 million in revenues? I think you guys have mentioned there's roughly a thousand hydroponic stores throughout the country. How many of these \$10 million-plus locations are even out there, in your estimation, and what kind of markets are they in?

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

I think what you're seeing right now, Eric, is mostly the larger stores, the larger chains are California based, Michigan based. That's really where you're seeing pockets—you know, you're seeing also in Colorado, very small in Washington. Absent that, you're seeing single stores, some—probably if you were to ask me, and this is an extremely rough guess, there's probably 20 stores doing over \$10 million in business throughout the country right now. There's a couple larger chains out there, but besides that you're seeing a lot of individual stores, larger stores in the bigger states. What you're seeing

and we keep speaking about is when you go into the New Jersey markets and the Pennsylvania markets and these smaller markets that are just emerging, you're seeing stores that are small - 2,000 square foot stores. GrowGen is selling into these states, and one thing from looking at our numbers, you'll see certainly the crazy numbers coming out of our Rhode Island store, same-store sales and the growth in Rhode Island has been spectacular.

People always ask the question, you know, what's going on in Rhode Island? Our Rhode Island store is located in a wonderful place. It's in Warwick right off of 95, and we're shipping into the Massachusetts market from our Warwick store, so we have a lot of business in Mass right now. Opposed to opening a store, we're using our Rhode Island store basically for Massachusetts. Licensing in Mass is very spread out.

So certainly one thing that we see is we—you know, where licensing is before GrowGen puts a store. We need zip codes, we need growers, and we really need to get a great understanding of where these stores belong, so right now again we know every single store in the country, we've spoken to every store in the country, and again we understand where the strength is, where the pockets of strength are, and you will see acquisitions coming out of GrowGen of some of the larger companies out there, some of our competitors.

Eric Des Lauriers – Analyst, Craig Hallum Capital Group

Okay, that's great to hear. I guess just following up along those lines, can you help us understand your due diligence criteria for some of these large acquisitions, and I suppose kind of going off that, how many of these might fit your criteria? Just any colour around how you go from identifying these

companies to deciding whether it's worth your cash, your shares, and is worth acquiring. Any colour would be great, thanks.

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Well first, amount of years in business, where they're located, same-store growth over the last five years, management, whether management is staying on or not, length of time of each employee that's working at the store, concentration of sales, and also we look at—you know, again, bigger purchases for GrowGen require two-year audits, so there are stuff that we're working on right now that's going through audit processes, so anything over a certain amount of money, we require two-year audits on. That's really the nine yards of it.

It's certainly nothing that no one else looks at. Again it's sales, it's margins, it's inventory levels, it's employees, and are they a fit for GrowGen. Again, will the employees fit into the GrowGen family, and can we make that store better, what's their product mix, what's their customer mix, where are they located, how close are they to a GrowGen store, is it a place that we can put a store opposed to purchasing a store, what's the return on investment opposed to opening, opposed to buying, and we're going through that right now in the Los Angeles market. Again, there's some large stores out in LA, does it make sense for GrowGen to pick up an existing large store or does it make more sense for GrowGen to build an existing store the way we want a built?

So there's a lot that goes into each acquisition, smaller acquisitions certainly are much quicker, the Emerald Garden acquisition—you know, we found the store, we bought it within a month, so certainly we have a team that goes out, that assesses it, counts inventory—again, sends their contracts.

They're all APAs or asset purchase agreements, we don't take any liability through these purchases. We close them, and again we've done a good job of it and certainly we'll see a tremendous amount of acquisitions over the next years.

Eric Des Lauriers – Analyst, Craig Hallum Capital Group

That's very helpful, thanks.

Operator

There are no further questions at this time. Please proceed.

Michael Salaman — President, GrowGeneration Corp.

If there's no further questions, I will conclude the call and thank everyone for their time and appreciate their support. It was a great quarter for the Company, but I can tell you that GrowGen is certainly—you know, doesn't rest on its laurels. We're looking at an even better third quarter and fourth quarter, and looking forward to surpassing our guidance for 2021.

Just wanted to thank everyone for their participation today, and look forward to our third quarter earnings call, which right now is scheduled for November 13. Thank you guys for your time and support. Appreciate our employees certainly during this COVID time, and couldn't be more prouder for the results, and go GrowGen.

Darren, you wanted to say the last words?

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Sure. Guys, in closing, everyone stay safe and don't forget to smile a little, laugh a little, and have a little bit of fun each day. It's certainly important. Like everyone knows, this too will pass. Again, stay safe and we appreciate all our shareholders and employees. Thank you for believing in our vision. We appreciate it and look forward to keeping you guys up to speed on guidance, and certainly thank you for everything you do for us.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines. Have a great day.